

# THE JOBS COST OF TAXPAYER-FUNDED PROJECTS

---

## Summary

Political parties of all stripes regularly try to justify expensive taxpayer-funded projects based on job creation. In reality, many Government projects can hamper private-sector job creation by imposing additional taxes on workers and businesses – which discourages productive economic activity.

This paper briefly examines the question of how many jobs we might expect to lose when the Government spends up large instead of letting taxpayers keep more of what they earn. Answering that question requires estimating both the economic cost of taxation and how many jobs could have been created if that cost had not been imposed.

If increased Government spending was associated with jobs growth we would see significantly lower unemployment in many countries with high levels of Government spending. In reality, government spending above New Zealand's current level is associated with lower economic growth .

## Deadweight Loss – The Economic Cost of Taxation

When Governments fund projects taxpayers have to pay for them. Either taxpayers fund those projects today (via income tax, GST, or reduced wages in the form of corporate tax) or they fund those projects in the future when the Government taxes us to pay back accumulated debt with interest.

Either way, raising that tax revenue has an economic cost – income taxes mean employees work fewer hours, corporate taxes mean less investment, and lifestyle taxes (like on petrol or alcohol) impact all kinds of everyday decisions (like how we might get to work or how much we might spend out on a night with friends). In economics we often call this economic cost “deadweight loss”.

Some local research estimates the aggregate economic cost from income tax.

- Creedy and Mok (2018) argue that the cost changes according to which group of people is being taxed, but find the average economic cost is 12 cents per dollar in revenue raised.



# THE JOBS COST OF TAXPAYER-FUNDED PROJECTS

---

- McKeown and Woodfield (1995) provide a range of estimates varying from 20.6 cents to 146.4 cents per dollar raised in revenue, depending on how you assume workers respond to income tax.
- A policy paper prepared for IRD in 2007 provides estimates ranging from 10 cents to 69 cents per dollar raised in tax revenue across different years.

It's difficult to make an aggregate estimation with wide ranging estimates for the economic cost of income tax and a lack of New Zealand-specific estimates on the economic costs of other taxes (since GST is a relatively efficient tax and corporate tax is relatively inefficient). Conservatively it seems reasonable to assume 15 cents (which falls in the middle to lower range of estimates available) of economic cost is generated for every dollar of tax revenue raised.

## The Cost of a Job

The best place to start when estimating the number of associated jobs which are lost due to economic cost is the Government's own assumptions from project announcements. The following job creation estimates come from the Government's Provincial Growth Fund announcements.

- A recent announcement for \$60 million of road and rail projects has been estimated to create 800 jobs – so \$75,000 per job .
- A \$5 million village redevelopment in the Bay of Plenty has been estimated to create 100 jobs – so \$50,000 per job .
- A \$38 million investment in a Rotorua “Spa and Springs” project is estimated to create 460 jobs – so \$82,600 per job .
- A \$5.3 million investment in Southland horticulture has been estimated to create 50 jobs – so \$106,000 per job.

Conservatively then, it seems reasonable to assume that a job would be lost for every \$70,000 in lost economic output – assuming that conversely a job can be created with \$70,000.



# THE JOBS COST OF TAXPAYER-FUNDED PROJECTS

---

## Calculating the Jobs Cost of Government Spending

It's important to remember that for every large project proposed by a political party, the obvious alternative is to return the proposed spend to taxpayers in the form of a tax cut. If the tax was returned, the money would instead flow through the economy and passively create jobs. Importantly though, the large economic costs discussed above would be avoided and additional jobs would be saved. Applying the assumptions above, we can calculate the Jobs Cost for different projects. For example:

- The \$72.5 million support package for the racing industry generated \$10.9 million of deadweight loss and cost the economy 155 jobs.
- The \$1 billion annual allocation for the Provincial Growth Fund over the last three years has generated \$150 million of deadweight loss per year and cost the economy 2140 jobs per year.

## Conclusion

Government projects are not free – taxpayers fund them by paying tax on their income, their investments, and everything they buy. When that tax is collected there is an economic cost, which among other outcomes, comes in the form of lost jobs. This paper provides a rough estimate at calculating the Jobs Cost of various Government projects (15% of the total spend, divided by \$70,000) to highlight the economic damage of seemingly attractive proposals.

